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RUEHBK/AMEMBASSY BANGKOK 3499  
RUEHBJ/AMEMBASSY BEIJING 6014  
RUEHUL/AMEMBASSY SEOUL 8295  
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STATE PLEASE PASS USTR  
STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR ALTBACH and Stratford  
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Taipei Economic Brief for November 2006

¶1. This cable summarizes selected November 2006 economic events in Taiwan:

--Domestic Demand to Sustain 2007 Growth;  
--Foreign Direct Investment Quadruples;  
--Carlyle to Acquire World's Largest Chip Packaging Firm;  
--Long-term Goals and Medium-term Development Plan;  
--Overseas Taiwan Firms Encouraged to Invest in Taiwan;  
--Efforts to Make Taiwan a High Tech Society;  
--Taiwan Pushing for Tax Agreement with US.

Domestic Demand to Sustain Taiwan's 2007 Growth

¶2. In late November 2007, the Directorate General of Budget Accounting and Statistics (DGBAS) raised Taiwan's estimated 2006 economic growth to 4.39% from 4.14%, mainly due to export performance. DGBAS and major private think tanks anticipate Taiwan's 2007 growth will remain above 4%. The source of 2007 growth is projected to shift from external to internal as export growth slows from 12.5% in 2006 to 6.1% in 2007. DGBAS expects private investment growth in 2007 will accelerate to 1.89% from 0.15% in 2006. Meanwhile, private consumption growth will rise from 1.5% to 3.0% as credit/cash card debt problems began to disappear in Q3 this year.

Foreign Direct Investment Quadruples

¶3. Inbound foreign direct investment (FDI) January-October 2006 totaled US\$11.23 billion, a 291 percent year-on-year increase. One factor was Philips Electronics Industries (Taiwan) transferring its holdings in Taiwan Semiconductor Manufacturing Company (TSMC) in January 2006 to Royal Philips Electronics of the Netherlands. This deal totaled US\$3.8 billion which accounted for one-third of total

FDI approved in the first ten months this year. Approved FDI without the Philips ownership transfer still registered a growth of 137.6% in January and 160% over the first ten months of the year. Other new projects principally included GE Consumer Finance's acquisition of Cosmos Bank, New Bridge's and Nomura's acquisition of equity in Taishin Financial Holdings, Carlyle Group's acquisition of Eastern Technology and Eastern TV, and Standard Chartered Bank's merger with Hsinchu International Bank.

#### Carlyle to Acquire ASE

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¶4. On November 26, Carlyle Group, a U.S. private equity fund, announced plans to acquire Advanced Semiconductor Engineering (ASE), the world's largest chip packaging firm, by buying ASE shares on the Taiwan Stock Exchange (TSE). After acquiring majority equity, Carlyle will de-list ASE from TSE. Carlyle is one of the foreign investors attracted by future growth opportunities, low share prices, and abundant inexpensive funding capital that Taiwan started earlier this year permitting foreign investors to use as a source of foreign direct investment. Taiwan's interest rates are the lowest in Asia after only Japan.

#### Long-term Goals and Medium-term Development Plan

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¶5. Taiwan recently set ten-year economic goals and a first phase three-year industrial development plan. Over the next ten years, Taiwan's per capita GDP will double, up from an estimated US\$15,690 in 2006 to US\$30,000 in 2015. Average annual economic growth will be 5%. The unemployment rate will be below 4%, and the inflation rate will be below 2%. Taiwan anticipates the service sector will grow by an average annual rate of 5.5%, faster than a projected rate

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of 1% for agriculture and a projected rate of 4.3% for the industrial sector.

¶6. To achieve the long-term goals, Taiwan has adopted a three-year development program under which the authorities will substantially discount rent of industrial land, relax restrictions on employment of foreign workers, and provide small and medium enterprises funding assistance. Industries targeted for growth over the next three years include banking, securities and insurance, logistic and distribution, medical care, digital content, tourism, telecommunications, information technology, and other services; and semiconductor, LCD-panel, petrochemicals, iron and steel, and machinery in the industrial sector.

#### Overseas Taiwan Firms Encouraged to Invest in Taiwan

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¶7. The Ministry of Economic Affairs (MOEA) has set up an inter-agency task force to encourage overseas Taiwan enterprises to invest in Taiwan. After its first meeting on November 14, the task force published results of a survey indicating that 401 overseas Taiwan companies want to return and invest in Taiwan. The majority of these companies are currently operating in Southeast Asia and China, with several in the United States. Taiwan authorities have earmarked NT\$200 billion (US\$6.1 billion) in low-interest loans for returning Taiwan companies.

#### Efforts to Make Taiwan Global ICT Model Society

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¶8. Vice Premier Tsai Ing-wen recently announced two programs to make Taiwan a model society in term of information and communications technology (ICT) applications. The M-Taiwan Plan program initiated in 2005 is designed to increase wireless networks and Internet usage. The plan also seeks to provide more ICT access in remote and rural areas. Another program to be adopted in the near future is called the U-Taiwan Plan which will utilize smart devices to allow Internet access anyplace anytime. An aim of the plan is to increase Taiwan's broadband penetration rate from less than 10% in 2002 to 80% while promoting high-definition television in households. These two plans are expected create nearly NTD 1

trillion (US\$30.3 billion) of trade and investment opportunities.

Taiwan Pushing for Tax Agreement with US

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¶9. Echoing AIT/T Director Steve Young's recent call in his November 21 speech to AmCham, Taiwan's Ministry of Finance (MOF) is promoting tax agreements with the United States and Canada. U.S. enterprises in Taiwan are seeking relief from taxes on royalties and commissions earned and on corporate bonds. Tax agreements avoid double taxation by different jurisdictions. Some Taiwan residents are worried that such agreements will expose their overseas income to taxation by Taiwan.

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